LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6091 | **NOTE PREPARED:** Jan 24, 2007
BILL NUMBER: HB 1533 | **BILL AMENDED:**

SUBJECT: Property tax freeze.

FIRST AUTHOR: Rep. Thompson | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: ___ **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill imposes a freeze on the total amount of ad valorem property taxes that may be imposed in Indiana beginning in 2008 other than for an obligation that: (1) was entered into before April 15, 2007; and (2) includes a pledge requiring a taxing unit or allocation area to repay the obligation only from property taxes.

It authorizes a taxing unit to adopt a levy freeze replacement income tax to replace the revenue lost as a result of the application of the property tax levy freeze.

The bill defines the term "fiscal officer" for certain political subdivisions.

Effective Date: July 1, 2007.

Explanation of State Expenditures: The bill primarily affects three state agencies: the Department of Local Government Finance, the Department of State Revenue, and the State Budget Agency.

Department of Local Government Finance (DLGF): The DLGF would be responsible for administering the property tax freeze component of the bill. The DLGF would continue to hear appeals to levies and certify budgets and levies. The DLGF is also required to provide LFRIT projections and the taxing units freeze limits to local units of government.

Department of State Revenue (DOR): DOR is required to provide employers and taxpayers with adequate information to determine (1) the tax area where the taxpayer has an obligation to pay LFRIT and (2) the total tax rate of a particular tax area. The number of income tax districts would be approximately 977. The DOR would also have to establish separate accounts for each taxing unit and provide information to the unit on the amount of collections, status of pending tax assessments, amount of refunds to taxpayers, transfers from the account to correct errors, and provide annual forecasts of revenue. The cost for developing a program to provide the required information could be significant.

State Budget Agency (SBA): The SBA is required to make a projection of the LFRIT for each taxing unit and provide it to the DLGF. The SBA is to work with the DLGF and the DOR in administrating the program. The impact on the SBA is unknown. The impact of projecting LFRIT for over 2,363 taxing units could be significant.

PTRC: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. The freezing of the property tax levies at the CY 2007 level would potentially reduce the state PTRC and Homestead credit expenditures for FY 2008 and later.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Beginning with property taxes due in CY 2008, the bill would freeze property taxes for each taxing unit at that unit's CY 2007 levy. Property tax growth that is otherwise allowed by law would be funded with LFRIT.

Taxpayers would pay a different LFRIT rate depending on the income tax district in which they reside. There would be about 977 income tax districts under this proposal. Each tax area would have its own LFRIT rate. The sum of the tax area LFRIT rates within an income tax district would comprise the taxpayer's total LFRIT rate.

There would be three types of tax areas possible in each county. A city or town would be a tax area. Each school corporation would be a tax area. All remaining taxing units – counties, townships, libraries, and special taxing units – would comprise one tax area within the county. Each income tax district would represent a unique combination of tax areas.

In the tax area that is made up of the county, townships, libraries, and special taxing units, all of the replacement tax amounts would be summed to serve as the basis for a countywide income tax rate calculation. This provision would spread the increase in tax burdens for smaller, localized units to a countywide income base.

In CY 2008 the statewide growth in levies for the last six years would be (2007 figures are estimated):

Calendar Year	Certified Levy	Increase
2002	$6,232 M	$315 M
2003	$6,767 M	$534 M
2004	$7,137 M	$370 M
2005	$7,438 M	$301 M
2006	$7,833 M	$394 M
2007	$8,146 M Est.	$ 313 M Est.

This analysis assumes that the levies and the adjusted growth income would grow by about 4 percent a year. The average growth of levies from CY 2002 to CY 2007 would be about $371 M per year. The initial average LFRIT rate for CY 2008 across the state is estimated at about 0.27%. Since the LFRIT would pay for the cumulative increase over the frozen base, this rate would increase annually by about 25%. The statewide rate after ten years would be approximately 2.5%. Initial county LFRIT rates vary between 0.17% and 0.45%; after ten years the rates would vary between 1.5% and 4%. The LFRIT for an individual taxpayer would vary greatly depending on their income tax base and the allowable growth in revenues.

The bill would shift the business share of the increase in local funding over the frozen property tax amount to individuals and businesses who file on the IT 20 as partnerships, S corporations, and sole proprietors. Currently, businesses pay a little over 50% of property taxes.

State Agencies Affected: Department of Local Government Finance; Department of Revenue; State Budget Agency.

Local Agencies Affected: All.

Information Sources: Department of Local Government Finance database.

Fiscal Analyst: David Lusan, 317-232-9592.